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RHEHAAA/NSC WASHDC PRIORITY

C O N F I D E N T I A L SECTION 01 OF 02 JEDDAH 000451

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RIYADH, PLEASE PASS TO DHARAHAN; DEPARTMENT FOR NEA/ARP;
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SUBJECT: MORSELS FROM THE BUSINESS BREAKFAST TABLE

REF: JEDDAH 437

Classified By: Consul General Tatiana Gfoeller, for
reasons 1.4 (b) and (d).

¶1. (C) SUMMARY: In conversations at the June meeting of the American Businessmen of Jeddah (ABJ), one American businessman admitted that he had lost confidence in the bearish Saudi stock market. An American financial consultant noted that improved adherence to principles of corporate governance and transparency would expose silent partners and corporate hangers-on and could reveal the economic influence of the Royal Family and others who have traded political influence for economic benefit. END SUMMARY.

FINALLY OUT OF THE MARKET

¶2. (C) In a private conversation before the beginning of the keynote speech, at the June General Membership Meeting of the American Businessmen of Jeddah (ABJ) (reftel), an American businessman who works for a major Saudi company confessed with some chagrin that he had finally abandoned the Saudi stock market. Initially bullish on the Tadawul, he had begun investing in mutual funds which were the only avenue through which a foreigner could invest in Saudi companies. Stoically enduring the first market reverses earlier this year, he took over his own portfolio with relief after the government allowed foreigners to purchase stocks directly. But he admitted that by the time his portfolio had lost 42% of its peak value, he had had enough and pulled out until the market stabilizes and more sound companies become available.

COMMENT: After six months of steady decline and losing roughly half its value, distrust of the market is firmly ingrained in the population. Even if the authorities successfully stabilize and widen the market, it could take a long time for a chastened public to regain its confidence in the stock exchange. END COMMENT.

WHEN TRANSPARENCY COMES WHAT WILL THE ROYALS DO?

¶3. (C) Pol/Econ Chief also had an opportunity to speak with American financial consultant, Kamal M. Quadir, who has been advising Saudi companies on how to compete in the global environment. He has been particularly concerned with transparency and corporate governance. That morning the conversation turned, with some amusement, to speculating on the consequences transparency may have for the Saudi Royal Family at large. Throughout its relatively brief history, a connection to the Saudi Royal Family has been virtually mandatory for major business enterprises seeking a helpful

government. Many Royals sit on corporate boards, some are silent partners in lucrative businesses, and others are commission agents of one sort or another, collecting large, and largely unearned, fees.

EQUITY HOLDERS WILL BE PUBLIC RECORD

¶4. (C) Under recently promulgated regulations, all board members and those with more than 3% equity in a company will be identified for the public record. This will present both Royals and companies with a dilemma. While a number of Royals are experienced, competent businessmen, and would be a worthy addition to any corporate board, many more, especially the peripheral minor Royals, hold their seats as sinecures. Additionally, it could be embarrassing to the Royal Family if the public learned how much commercial wealth was actually controlled by it.

COMPANIES UNCERTAIN WHAT COURSE TO TAKE

¶5. (C) Surprisingly, some of the companies have expressed ambivalence about the prospect of being shorn of their royal partners. Royal connections are a long-standing tradition in the Arab world, and a number of companies have indicated that they are reluctant to loose the prestige and status that comes from an association with the Royal Family (and more usefully, that immediate channel of access to the seat of power.)

WHAT WILL THE LONG-RANGE EFFECTS BE?

¶6. (C) COMMENT: The publication of corporate equity holders could have a marked effect on the Royal Family and its public

JEDDAH 00000451 002 OF 002

image. Will the public be outraged to discover that the Saudi Royals have a finger in every economic pie, while the children of the average Saudi cannot get a job even with a college degree? Will minor Royals denied financial subventions through corporate benefices form a new group of disaffected but influential people with no place in an open, competitive Saudi Arabia? Only time will tell. END COMMENT.
Gfoeller